RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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SPECIAL REPORT ON THE PTI

September 20, 1985

I'm sending out this special one-page Letter because I want my subscribers to be aware of what my Primary Trend Index is doing and what it might do in the period ahead. I seldom include this point&figure chart of the PTI, but at this time I believe we should study it carefully. Remember, I don't tell the PTI what to do, I simply compute it daily and try to draw conclusions from the action of this very valuable indicator.

As you can see, since 1979, the PTI has traced out three major advancing legs and two intervening and major declining legs. From the 1984 bottom the most recent rising leg has been constructed. This latest rising leg hit a high of 1939 on August 29, almost a month ago. I have been watching to see whether anything resembling a topping formation would follow the 1939 high. So far, I would have to say that the PTI does seem to be forming a top. What we see here is a little left shoulder, then a head at the 1939 peak, and now the PTI has come down to the 1900 level again. One more rally, and the PTI will have formed a little right shoulder. A breakdown from there would be serious in that it would suggest a decline of perhaps major proportions.

On this basis, I am sending out this special report. The question, of course, is what to do about it? As I see it, the odds are fairly good that the PTI is forming a top (remember, as this is written the PTI has not broken down yet, so I am jumping the gun with this special mailing). But based on what I see in this chart, I would say that the odds are 2 to 1 that the PTI will form a top and then break down. On that basis, my instinct is to tell subscribers to cut back on a portion of stock holdings and to switch no-load funds into money market funds. If, in the weeks ahead, the PTI can rally back over the August 29 peak of 1939, this Letter will have been a false alarm. But my guess, based on the point&figure pattern shown on this chart is that the PTI will have a serious down move in the period ahead and very likely it will be an extended (in time) down move.

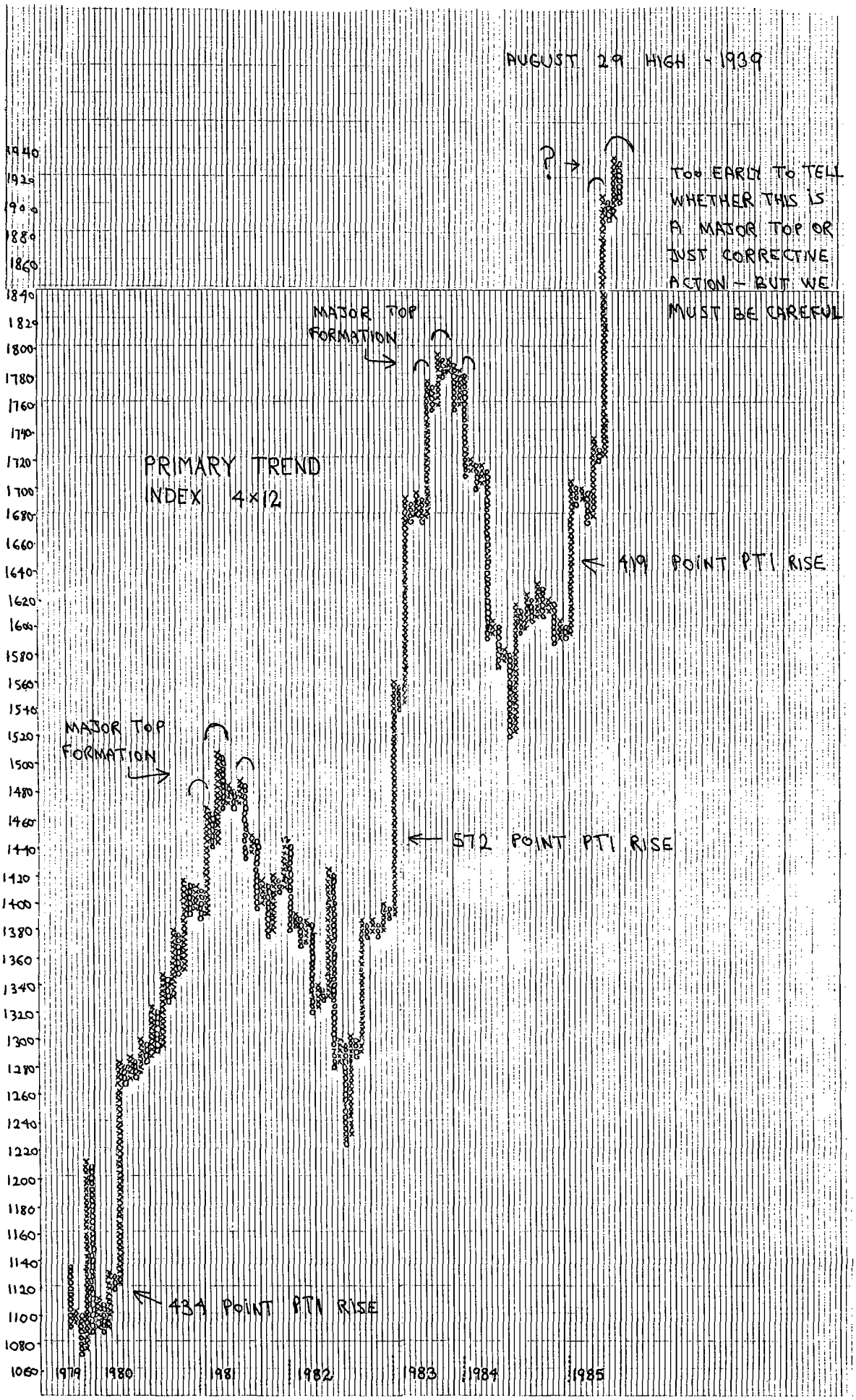
I might add that this Letter deals ONLY with the PTI and nothing else. I have not injected any other market study or fundamental consideration in this piece. It is as if I wrote this from an isolated room with no communication from the outside and no special knowledge except a knowledge of the history and probable action of my PTI. But I did think my subscribers deserved to be updated on an indicator I have been working with for 14 years.

Note: For the benefit of new subscribers and current trial subscribers, my Primary Trend Index is an amalgam of eight critical averages and indicators. The indicators are all based on market ACTION rather than on sentiment, monetary or any other non-market considerations. The eight items are computed daily in a formula which I have never revealed to anyone. Thus, the PTI provides a special and unique technical picture which has been of great value to me and my subscribers over the years. The PTI tends to form patterns prior to major reversals, and strangely, most of the patterns have been head-and-shoulder tops or bottoms. The main thrust of any market move has come AFTER the pattern has fully formed.

LATE NOTE: On Sept. 18, the PTI was 1903. The 89-day moving average of the PTI was 1870 on the day, so that the PTI is still more than 30 points ABOVE its moving average. Thus, the PTI has not yet given a bear signal on the moving average study. It should be remembered that major moves always come after a PTI penetration, even though the penetrations may, at the time, appear "late".

NEXT MAILING: October 9

Unless something critical happens--in which case earlier.


AUGUST 29 HIGH - 1939
?
TOO EARLY TO TELL WHETHER THIS IS A MAJOR TOP OR JUST CORRECTIVE ACTION - BUT WE MUST BE CAREFUL
MAJOR TOP FORMATION
PRIMARY TREND INDEX 4×12
419 POINT PTI RISE
MAJOR TOP FORMATION
572 POINT PTI RISE
434 POINT PTI RISE
1940
1920
1900
1880
1860
1840
1820
1800
1780
1760
1740
1720
1700
1680
1660
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1600
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